Fact Sheet

Washington State
Office of the
Insurance Commissioner

Private Mortgage Insurance

What is Private Mortgage Insurance?

Private mortgage insurance (PMI) protects the lender in case the borrower defaults on his or her mortgage loan. Lenders generally require PMI when your down payment on the purchase of a home is less than 20 percent of the home's total value. Depending on the type of policy, the insurer will pay the lender 20 to 30 percent of the mortgage balance if you default on the mortgage. This generally is sufficient to offset costs the lender will incur to foreclose, repossess, and resell the home.

What you need to know about PMI

PMI can help you buy a home you might not normally be able to afford because you don't have the 20 percent down payment.

PMI premiums are often less expensive for fixed-rate mortgages than adjustable loans. The premium also depends on the size of the mortgage and the amount of your down payment. You may pay a higher premium if you are looking at homes in neighborhoods where the housing costs are twice as much or more than the national average.

Your consumer rights

Under the Homeowners Protection Act (HPA) of 1999, your lender must inform you in writing that you have PMI. They must also provide you with an explanation of the coverage, and when and how you can cancel it. Annually, your lender must let you know when you are eligible to cancel the coverage.

Under HPA, you can also request to cancel PMI coverage when you pay down your mortgage to equal 80 percent of the original purchase price, or the appraised value of your home at the time you obtained the loan – whichever is less. You also need to have a good payment history. This means you have not been 30 days late with a mortgage payment within a year of your request, or 60 days late within two years.

When you request to cancel PMI, your lender may require documentation that your property value has not declined from its original value. It may also request that your property does not have a second mortgage, such as a home-equity loan.

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) also adopted the same consumer disclosure guidelines for PMI coverage. However, HPA applies only to mortgages dated after July 29, 1999. If you received a Fannie Mae and Freddie Mac loan before July 29, 1999, your PMI will be automatically cancelled once you reach the mid-point of your loan.

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Loans granted by the Federal Housing Administration and the Department of Veterans Administration generally require PMI for the duration of home loans.

If you have questions, check with your lender or broker – before you sign the loan – to find out if your loan qualifies for PMI cancellation after you meet certain milestones.

Shop around

Since PMI coverage is insurance for the lender, not the homeowner, you can't choose the PMI company. However, you can shop around when choosing your mortgage lender. You may ask lenders how much they charge for PMI coverage.

While there are some low down-payment loans without PMI requirements, they may have slightly higher interest rates. Interest payments and taxes are deductible, while payments for PMI coverage are not.

How to file a complaint if your lender doesn't comply with HPA

First, determine who regulates your financial institution, then contact the appropriate organization that oversees or regulates it.

- **State chartered banks** are financial institutions chartered by the state's Division of Banks. State chartered banks are regulated under the Revised Code of Washington (RCW), **Titles 30**, **32** and **33**. Send complaints against state chartered banks to the:

    Washington State Department of Financial Institutions
    Division of Banks
    P.O. Box 41200
    Olympia, WA 98504-1200

- **National banks** are usually identified by the words "national" or "national association" in their titles, or the letters "N.A." or "NT&SA" following their titles. Direct complaints against a national bank to the:

    U.S. Department of Treasury, Office of the Comptroller of the Currency
    Customer Assistance Group
    1301 McKinney St., Suite 3450
    Houston, TX 77010

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- **Federal savings banks** usually have the words "federal association" or "federal savings bank" in their titles, or the letters "F.A." or "FSB" following their titles. Direct complaints against a federal bank to the:

  U.S. Department of Treasury, Office of Thrift Supervision
  P.O. Box 7165
  San Francisco, CA 94120-7165

- **Credit Unions and lenders** that are not banks are regulated by the Federal Trade Commission. Direct complaints against these lenders to the:

  Federal Trade Commission, Consumer Response Center
  600 Pennsylvania Ave. NW
  Washington, D.C., 20580

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The Office of the Insurance Commissioner can help you!

If you have any questions or need additional information about your rights as an insurance consumer, call our Insurance Consumer Hotline at

1-800-562-6900

or visit our Web site at

http://www.insurance.wa.gov/

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